The 70% Rule

Now for some of you who have some background or have been studying wholesaling, you might have come across the 70% rule.

It's very common rule that many flip investors follow.

This is to account for holding costs like taxes, utilities, marketing, broker commissions, etc...

Basically, as a flipper, they want to try to acquire their investment at no more than 70% of the ARV minus the repairs.

So let's say a house has an ARV of $100K 70% of that is $70K

But let's say it also needs $10K in repairs. So now, the flip investor following this rule would want to pay no more than $60K for the property.

How does that affect you?

Well, if you know that's what YOUR potential buyer are expecting, aka these flip investors, and thus what they're likely to be willing to pay for that house, then you need to be able to get it for less than that.

In our example, if you wanted to make $5K from the deal and you know that 70% ARV minus rehab is $60K, then at MOST you can pay for the house will be $55K.

This is a very common and frequently used formula. However, it does come with some disadvantages.

The main one being that it doesn't factor in local market information. It's a one size fits all solution.

Which for some markets, can tend to over or underestimate the

MAO.

Some markets with great fundamentals and fast appreciating home values might be able to justify upwards of 80% of ARV while some other markets could at most go to 65% or just 60% of ARV.

If you're just starting out and don't have a lot to go off of, this is a great formula to being with.